

**REPORT OF EXAMINATION**  
**of**  
**NORTH WEST LIFE ASSURANCE COMPANY**  
**OF AMERICA**

**Bellingham, Washington**

**as of**

**December 31, 1997**



**States Participating**

**Washington**

**NORTH WEST LIFE ASSURANCE COMPANY  
OF AMERICA**

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify that I have reviewed the attached Report of Examination of the financial condition and affairs of **North West Life Assurance Company of America** of Bellingham, Washington as of December 31, 1997.

---

JAMES T. ODIORNE, CPA, JD  
Deputy Insurance Commissioner  
Company Supervision  
Acting Chief Examiner

Date (5/12/99)

# **NORTH WEST LIFE ASSURANCE COMPANY OF AMERICA**

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**NORTH WEST LIFE ASSURANCE COMPANY  
OF AMERICA**

Seattle, Washington  
February 19, 1999

Honorable Deborah Senn  
Insurance Commissioner  
State of Washington  
Insurance Building  
PO Box 40255  
Olympia, WA 98504

Honorable Alfred W. Gross, Commissioner  
Virginia Bureau of Insurance  
Chairman, Financial Condition  
NAIC Subcommittee (EX4)  
PO Box 1157  
Richmond, VA 23218

Dear Commissioner Senn and Commissioner Gross:

In accordance with your instructions and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of:

**NORTH WEST LIFE ASSURANCE COMPANY OF AMERICA**  
of  
Bellingham, Washington

hereinafter referred to as "NWA" or the "Company", at its home office located at 1900-1188 West Georgia Street, Vancouver, B.C., Canada. This report of examination is respectfully submitted on the condition of the Company as of December 31, 1997.

**SCOPE OF EXAMINATION**

The examination covered a five-year period from January 1, 1993 through December 31, 1997 and comprises a comprehensive review of the books and records of the Company. The examination was conducted in accordance with the statutory requirements contained in the Washington Insurance Code and the guidelines and procedures set forth in the Examiners' Handbook adopted by the National Association of Insurance Commissioners (NAIC). The examination included identification and disposition of material transactions and events occurring subsequent to December 31, 1997 that were noted during the examination. Additionally, workpapers prepared by the Company's independent auditors were reviewed and utilized to the extent possible.

**NORTH WEST LIFE ASSURANCE COMPANY  
OF AMERICA**

**INSTRUCTIONS**

(1) The Company is instructed to comply with RCW 48.05.250 and follow the NAIC guidelines in the preparation of its Annual Statement.

(2) In our review of Life Policy & Contract Claims, we noted that the Company paid interest of 5% on death benefits on all policies issued in the United States. The Company is instructed to comply with: (a) RCW 48.23.300 which requires an interest rate on policy proceeds of not less than 8% for policies issued in the State of Washington; and, (b) the interest rates as required by other states.

(3) The Company is instructed to comply with RCW 48.12.010(11) which sets forth a minimum cost of \$25,000 for EDP Equipment to be considered admitted assets.

(4) The Company reported as admitted assets the account balances of prepaid expenses, agents' debit balances, and accounts receivable. The Company is instructed to comply with RCW 48.12.020 which expressly disallows these accounts as assets in the determination of the financial condition of the insurer.

**COMMENTS AND RECOMMENDATIONS**

(1) In our review of Bonds, it was noted that the custodial agreement with Seattle First National Bank does not include the required provisions for indemnifying the Company for lost securities. It is recommended that the agreement be updated to reflect the change of custodian from Seattle First National Bank to BNY Western Trust and to include the provisions for indemnifying the Company for the loss of securities as required by the NAIC.

(2) A review of the Cash Reconciliation shows that there are several reconciling items included that date back to late 1996. It is recommended that the Company make a concerted effort to eliminate the reconciling items in a timely manner.

(3) The ALIS system does not reflect the accurate balance of policy loans and the Company prepares manual adjustments for general ledger purposes. The manual adjustments do not reflect any policy loan activities occurring between anniversary dates. It is recommended that the Company implement a control system to detect changes between anniversary dates.

# **NORTH WEST LIFE ASSURANCE COMPANY OF AMERICA**

## **HISTORY AND CAPITALIZATION**

### **History**

The Company was incorporated under the laws of the State of Washington as Life Insurance Company of the Northwest on August 17, 1966 and commenced business on December 19, 1966. The Company was purchased by North West Life Assurance Company of Canada (NWC) and on October 24, 1985, the company's name was changed to North West Life Assurance Company of America (NWA). On May 19, 1988, NWC sold the Company to its parent, Industrial Alliance Life Management Corporation of Quebec, Canada.

On August 8, 1989, the Company's principal place of business was changed from Spokane, Washington to Bellevue, Washington. The ByLaws of the Company were amended on March 7, 1994 to change the principal place of business from Bellevue to Edmonds, Washington. Again on March 6, 1995, the ByLaws were amended to change the principal place of business from Edmonds to its present statutory Home Office at Bellingham, Washington.

## NORTH WEST LIFE ASSURANCE COMPANY OF AMERICA

### Capitalization

The authorized capital stock of the Company consists of 10,000,000 shares of Common Stock with par value of \$2.40 per share and 1,000,000 shares of Preferred Stock with par value of \$25.00 per share. The outstanding shares, along with the capital and surplus account balances during the period under examination are listed below:

	<u>12/31/93</u>	<u>12/31/94</u>	<u>12/31/95</u>	<u>12/31/96</u>	<u>12/31/97</u>
Common Stock:					
Par Value	\$2.40	\$2.40	\$2.40	\$2.40	\$2.40
Outstanding Shares	1,246,774	1,246,774	1,246,774	1,246,774	1,246,774
Preferred Stock:					
Par Value	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00
Outstanding Shares	160,000	160,000	160,000	160,000	160,000
Common Stock	\$ 2,992,257	\$ 2,992,257	\$ 2,992,257	\$ 2,992,257	\$ 2,992,257
Preferred Stock	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Gross Paid-in Surplus	7,314,336	7,314,336	7,314,336	7,314,336	7,314,336
Provision for AIDS	200,000	200,000	200,000	200,000	200,000
Unassigned Surplus	<u>( 2,394,594)</u>	<u>(1,924,749)</u>	<u>(1,538,626)</u>	<u>(1,236,597)</u>	<u>( 668,989)*</u>
Total	<u>12,111,999</u>	<u>12,581,844</u>	<u>12,967,967</u>	<u>13,269,996</u>	<u>13,837,604*</u>

\* As adjusted by examination.

### Affiliated Companies

North West Life Assurance Company of America is 99.9% owned by Industrial Alliance Life Management Corporation, a wholly owned subsidiary of Industrial Alliance Life Insurance Company of Quebec, Canada, the ultimate parent.

### Organizational Chart

The organizational chart in the following page shows the companies affiliated with the group as of December 31, 1997.



**NORTH WEST LIFE ASSURANCE COMPANY  
OF AMERICA**

**ORGANIZATIONAL CHART**  
(Please refer to Hard Copy)

**NORTH WEST LIFE ASSURANCE COMPANY  
OF AMERICA**

**MANAGEMENT AND CONTROL**

**Shareholders**

The Company is 99.9% owned by Industrial Alliance Life Management Corporation of Quebec, Canada, the parent company. The ultimate parent is Industrial Alliance Life Insurance Company of Quebec, Canada.

**Board of Directors:**

The Articles of Incorporation vest the management and control of the affairs of the Company in a Board of Directors which is to consist of not less than five (5) nor more than fifteen (15) in number. As of December 31, 1997, the Board of Directors consisted of nine (9) members.

The following individuals serve the Company as Directors and Officers as of December 31, 1997:

**Directors:**

**Name and Residence**

**Business Affiliation**

Normand Pepin  
515 - 6 Jardines de Merici  
Quebec, Quebec, G1S 4N7

Exec. Vice President, Industrial-  
Alliance Life Insurance Company

John G. Gill  
6994 Yew Street  
Vancouver, B.C. V6P 5W3

President & Chief Executive  
Officer, North West Life

Raymond Garneau  
104-4700 Ste. Catherine, W  
Montreal, PQ H3X 1S0

Chairman of the Board, President &  
Chief Executive Officer, Industrial-  
Alliance Life Insurance Company

H. Curtis Reed  
1229 Las Vistillas, Suite C  
San Marcos, CA 92069

President, La Jolla Associates, Inc.

**NORTH WEST LIFE ASSURANCE COMPANY  
OF AMERICA**

Rom J. Markin  
N. W. 305 Janet Street  
Pullman, WA 99163

Professor of Marketing, College of  
Business and Economics,  
Washington State University

Frank Niessner  
11961 Road A & 12  
Royal City, WA 99357

President, Sunfresh Enterprises, Inc.

Warren Van Genderen  
65 Kirkland Avenue, #305  
Kirkland, WA 98033

Partner, Olympic Capital Partners

Marcel Gagne  
1160, Rue Luc Lacoursiere  
Saints-Foy, Quebec G1X 4V5

Vice President, Industrial-Alliance  
Life Insurance Company

Henry A. Roy  
3180 De Lavigne  
Montreal, Quebec H3Y 2C4

Sr. Vice-President, Finance &  
Chief Financial Officer,  
Cambior, Inc.

**Officers:**

**Name**

**Position Held**

Raymond Garneau  
John B. Gill  
Arthur W. Putz  
Donald R. Francis  
Ronald W. Pepper  
Gordon Robinson  
Tyronne Tutt  
Zulfikar K. Mohamed  
Paul Grimes  
Douglas A. Carrothers

Chairman of the Board  
President and Treasurer  
Vice President & Corporate Secretary  
Vice President & Actuary  
Vice President, Marketing  
Vice President, Finance  
Vice President, Individual Insurance  
Vice President, Actuarial & Data Processing  
Vice President, Sales, British Columbia  
Asst.. V. P. and Legal Counsel

**NORTH WEST LIFE ASSURANCE COMPANY  
OF AMERICA**

**CORPORATE RECORDS**

**Minutes**

Minutes of the Board of Directors and Shareholders meetings were reviewed for 1993 through 1997. On March 7, 1994, the Board approved an amendment to the ByLaws of the Company increasing the number of directors to nine (9) and changing its principal place of business from Bellevue to Edmonds, Washington. On March 6, 1995, the Board approved an amendment to the ByLaws changing the principal place of business from Edmonds to Bellingham, Washington, its present statutory home office.

**Conflict of Interest**

The Company has an established procedure for dealing with Conflict of Interest on the part of its directors and officers and responsible employees. Each director, officer, or responsible employee is required to complete a Conflict of Interest Form and any reported circumstance that may involve a conflict of interest is then reported to the Conduct Review Committee of the Board for review. There were no conflicts reported for the period covered by this examination.

**Contracts**

As of December 31, 1997, the Company was a party to the following contracts:

- (1) A Management Agreement with North West Life Assurance Company of Canada, an affiliated company, effective March 4, 1991.
- (2) An Agreement for Data Processing Services with Industrial-Alliance Administrative Services Inc., a subsidiary of the ultimate parent, Industrial Alliance Life Insurance Company of Quebec, Canada.
- (3) A Lease Agreement-Commercial Premises for its statutory Home Office at Bellingham, Washington effective March 20, 1995 to March 31, 2000.

## **NORTH WEST LIFE ASSURANCE COMPANY OF AMERICA**

### **INTERNAL SECURITY**

#### **Fidelity Bonds**

North West Life Assurance Company of America is listed as an additional insured under a Financial Institution Bond issued to its ultimate parent company, Industrial Alliance Life Insurance Company by The Guarantee Company of North America. The policy provides a limit of \$10,000,000 with a single loss deductible of \$100,000. The coverage exceeds the minimum amount of fidelity insurance recommended by the NAIC Examiners Handbook.

#### **Other Insurance**

The Company and other affiliates, through its parent company, Industrial Alliance Life Insurance Company, are provided protection against property and liability loss. Coverages include commercial general liability, directors and officers liability and other hazards to which the Company is exposed. In addition, the Company has a Mortgage Impairment Policy which covers "any building located anywhere in Canada and in the United States in which NWA has an interest as mortgagee." The insurer will be liable for the unpaid mortgage amount at the time of the loss minus the value of the undamaged property. The Company appeared to be adequately protected.

#### **Internal Controls**

The firm of Deloitte & Touche, Chartered Accountants of Vancouver, British Columbia, was retained by the Company to audit its statutory financial statements for the years under examination. As part of these audits, reports of internal control structure were issued with no material weaknesses noted.

Internal Audit Department of the parent company, Industrial Alliance Life Insurance Company, performs audits of the Company and provides recommendations to management on internal controls and operational procedures.

In addition, internal controls were independently tested by the Examiners on the line items assigned to them and no material weaknesses were found. Internal controls tested appeared to be effective and reliable.

## **NORTH WEST LIFE ASSURANCE COMPANY OF AMERICA**

### **WELFARE & PENSION PLANS**

The Company provides its employees and their eligible dependents with medical and dental benefits through Whatcom Medical Bureau and Blue Cross of Washington and Alaska. The Company pays 100% of premiums for employees and 50% for their dependents. Other benefits include group life insurance, long term disability insurance, vacation and sick leave benefits.

The Company has a 401(k) retirement plan. Employees participating in the plan may contribute up to 10% of their earnings. The Company contributes a portion equal to one half (½) of the participant's contributions up to a maximum of 6% of the participant's earnings. As of December 31, 1997, the fair value of the plan assets was \$142,730 per statement from the Trustee, Bank of New York. The amount of the accumulated benefit obligation of the Company is \$144,117.

### **TERRITORY AND PLAN OF OPERATIONS**

As of December 31, 1997, the Company was authorized to transact business in the following states:

Alaska	Arizona	California	Colorado
Hawaii	Idaho	Iowa	Montana
Nebraska	Nevada	New Mexico	North Dakota
Oregon	South Dakota	Texas	Utah
Washington	Wyoming		

The Company markets whole life, term life, universal life, and single premium immediate and deferred annuity products. In 1994, the Company introduced a final expense/funeral expense product to the U.S. market targeted at low and middle income seniors aged 55 to 75. The Company's sales are now almost exclusively of this new product.

The Company planned to expand its territory of operation in eighteen (18) more states as follows: Delaware, Georgia, Illinois, Indiana, Kentucky, Louisiana, Maryland, Minnesota, Mississippi, Missouri, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Virginia, West Virginia and Wisconsin. The Company planned to obtain licenses from eight (8) of the above states in 1999.

**NORTH WEST LIFE ASSURANCE COMPANY  
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**GROWTH OF THE COMPANY**

The growth of the Company is reflected in the following schedules:

Schedule 1  
(000s) omitted

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>
1997*	45,698	31,861	13,837
1996	44,577	31,307	13,270
1995	43,557	30,589	12,968
1994	37,383	24,801	12,582
1993	36,481	24,369	12,112

Schedule 2  
(000s) omitted

<u>Year</u>	<u>Net Premium Written</u>	<u>Net Investment Income</u>	<u>Net Income</u>
1997*	4,405	2,991	516
1996	3,901	2,983	337
1995	8,139	2,603	402
1994	2,593	2,512	550
1993	2,885	2,468	1,098

\* As Adjusted by Examination

**NORTH WEST LIFE ASSURANCE COMPANY  
OF AMERICA**

**REINSURANCE**

The Company has in effect various reinsurance agreements covering life and annuity business as described below:

**Assumed Reinsurance**

The Company has a coinsurance agreement with its affiliate, North West Life Assurance Company of Canada (NWC) effective December 31, 1990, whereby the Company assumed from NWC approximately \$9 million of assets and obligations. The Company holds the reserves for these policies. As of December 31, 1997 these reserves totaled \$8,648,746.

**Ceded Reinsurance**

The Company has coinsurance and yearly renewable term agreements (YRT) with NWC. As of December 31, 1997, the reserve credit taken for this business totaled \$178,061. The Company also has YRT agreements with several authorized companies and one (1) unauthorized company in the State of Washington.

All the reinsurance treaties contained the insolvency provision pursuant to RCW 48.12.160(3).



**NORTH WEST LIFE ASSURANCE COMPANY  
OF AMERICA**

**ACCOUNTING RECORDS AND SYSTEMS**

The accounting records of the Company are maintained both manually and by computer with the general ledger being generated by electronic data processing equipment. The Information System consists of an UNIX operating system on an IBM RS/6000 minicomputer, a Xerox 4050 laser printer, and a PC emulating an IBM Remote Job Entry console. The Wide Area Network includes approximately one hundred (100) networked PC's that are connected to the mainframe at the parent company in Quebec via Frame Relay and the Internet via ISDN connection.

Most departments of the Company have access to the mainframe and can enter their own journal entries. The Financial Accounting department enters its own journal vouchers and occasionally enters those for other departments. The ALIS, a sub-system of the mainframe, and Microdata information are translated daily into the mainframe system to update policyholders files.

Work papers of the Company's independent auditors were available for review and were utilized where possible in the testing and verification of account balances.

**RESERVES**

The Company provided its workpapers and summaries of those workpapers used to record reserves. The examiners reconciled the totals of those summaries to amounts reported in the Company's 1997 Annual Statement. No actuarial review or examination of reserve methodology, calculation, or adequacy was performed by an actuary on behalf of the Washington State Office of the Insurance Commissioner.

**NORTH WEST LIFE ASSURANCE COMPANY  
OF AMERICA**

**SUBSEQUENT EVENTS**

On May 8, 1998, the Company gave notice to the Commissioner, as required by RCW 48.31B.030 (1)(b), of its plan to purchase a small block of mortgages from North West Life Assurance Company of Canada with a total book value of \$1,949,927. These transactions were booked in April 1998.

No other material transactions or events occurring subsequent to the examination date were noted during the course of our examination.

**FINANCIAL STATEMENTS**

**DECEMBER 31, 1997**

The following financial statements showing the condition of the Company as of December 31, 1997 are included in this report:

- Balance Sheet
- Summary of Operations
- Capital and Surplus Account
- Comparative Balance Sheet
- Comparative Summary of Operations
- Reconciliation of Capital and Surplus

# NORTH WEST LIFE ASSURANCE CO. OF AMERICA

BALANCE SHEET  
AS OF DECEMBER 31, 1997

	BALANCE PER COMPANY	Notes	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	Comments
<b>ASSETS</b>					
Bonds	\$ 16,222,780		\$ -	\$ 16,222,780	A
Mortgage Loans on Real Estate	15,487,999			15,487,999	B
Policy Loans	10,130,896		-	10,130,896	C
Cash on hand and on deposit & Short Term Investment	1,654,628		-	1,654,628	D
Other Invested Assets	528,363			528,363	E
Electronic data processing equipment	4,597	(1)	(4,597)	-	
Federal income tax recoverable		(2)	412,887	412,887	
Life Premiums & Annuity Considerations deferred & uncollected	679,818		-	679,818	F
Investment Income due and accrued	580,966		-	580,966	
Aggregate write-ins for other than invested assets	412,887	(2)	(412,887)	-	
Aggregate write-ins for other than invested assets	71,075	(4)	(71,075)	-	
<b>Total Assets</b>	<b>\$ 45,774,009</b>		<b>\$ (75,672)</b>	<b>\$ 45,698,337</b>	
<b>LIABILITIES</b>					
Aggregate reserve for life policies & contracts	\$ 29,680,131		\$ -	\$ 29,680,131	G
Policy and contract claims:					
Life	315,651	(3)	36,000	351,651	H
Policyholders' Dividends and Coupon Accumulations	878,203			878,203	I
Policyholders' Dividends Due & Unpaid	26,026			26,026	
Liability for premium and other deposit funds:					
Policyholder premiums	156,021			156,021	
Policy and contract liabilities not included elsewhere:					
Interest Maintenance Reserve	107,070		-	107,070	J
Commissions to agents due or accrued	232,742		-	232,742	
General expenses due or accrued	30,004		-	30,004	
Taxes, licenses and fees (excluding federal and foreign income taxes)	44,291	(5)	(21,753)	22,538	
Federal Income Taxes due and accrued	-		-	-	
Amounts held for Agents' account	82,869		-	82,869	
Remittances and items not allocated	16,954			16,954	
Asset Valuation Reserve	227,747			227,747	K
Payable to parent, subsidiaries and affiliates	48,777		-	48,777	
Aggregate Write-ins for liabilities	-		-	-	
<b>Total Liabilities</b>	<b>\$ 31,846,486</b>		<b>\$ 14,247</b>	<b>\$ 31,860,733</b>	
<b>CAPITAL AND SURPLUS</b>					
Common capital stock	\$ 2,992,257		\$ -	\$ 2,992,257	
Preferred Capital Stock	\$ 4,000,000			4,000,000	
Gross paid in and contributed surplus	7,314,336			7,314,336	
Reserve for Aids	200,000			200,000	
Unassigned funds (surplus)	(579,070)		(89,919)	(668,989)	
<b>Total Capital and Surplus</b>	<b>\$ 13,927,523</b>		<b>\$ (89,919)</b>	<b>\$ 13,837,604</b>	
<b>Total Liabilities, Capital and Surplus</b>	<b>\$ 45,774,009</b>		<b>\$ (75,672)</b>	<b>\$ 45,698,337</b>	

# NORTH WEST LIFE ASSURANCE CO. OF AMERICA

## SUMMARY OF OPERATIONS FOR YEAR ENDED DECEMBER 31, 1997

	BALANCE PER COMPANY	Notes	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Premiums and annuity considerations	\$ 4,405,427		\$ -	\$ 4,405,427
Dividends accumulations	59,680			59,680
Net Investment Income	2,990,600		-	2,990,600
Amortization of Interest Maintenance Reserve	25,481		-	25,481
Commissions and expense allowances on reinsurance	8,368			8,368
Aggregate write-ins for miscellaneous income	44,507		-	44,507
<b>Total Income</b>	<b>\$ 7,534,063</b>		<b>\$ -</b>	<b>\$ 7,534,063</b>
Death Benefits	1,016,872	(3)	36,000	\$ 1,052,872
Matured Endowments	42,145			42,145
Annuity Benefits	980,534			980,534
Surrender benefits and other fund withdrawals	919,691			919,691
Interest on policy and contract funds	81,761			81,761
Payments of Dividends Accumulations	141,706			141,706
Increase in aggregate reserves for life and A&H policies & contracts	687,110			687,110
Increase in liability for premium and other deposit funds	(3,890)			(3,890)
Increase in reserve for Dividends Accumulations	(78,136)			(78,136)
Commissions on premiums and annuity considerations	1,631,296		-	1,631,296
Commissions & expense allowance on reinsurance assumed	103,386			103,386
General insurance expenses	1,214,133		-	1,214,133
Insurance taxes, licenses and fees	165,580	(5)	(21,753)	143,827
Aggregate write-ins for deductions	-		-	-
<b>Total Benefits and Expenses</b>	<b>\$ 6,902,188</b>		<b>\$ 14,247</b>	<b>\$ 6,916,435</b>
<b>Net Gain from Operations before dividends to policyholders</b>	<b>\$ 631,875</b>		<b>\$ (14,247)</b>	<b>\$ 617,628</b>
Dividends to Policyholders	102,029		-	102,029
<b>Net gain from operations before federal income taxes</b>	<b>\$ 529,846</b>			<b>\$ 515,599</b>
Federal Income Taxes	(380)		-	(380)
<b>Net gain from operations before realized capital gains</b>	<b>\$ 530,226</b>			<b>\$ 515,979</b>
Net Realized capital gains less capital gains tax	-		-	-
<b>NET INCOME</b>	<b>\$ 530,226</b>		<b>\$ (14,247)</b>	<b>\$ 515,979</b>
<b>CAPITAL AND SURPLUS ACCOUNT</b>				
Capital and surplus, December 31, previous year	\$ 13,269,996		\$ -	\$ 13,269,996
Net income	530,226		(14,247)	515,979
Change in unrealized capital gains or (losses)	7,979			7,979
Change in non-admitted assets	(445)	(1&4)	(75,672)	(76,117)
Change in Asset Valuation Reserve	119,767		-	119,767
<b>Net change in capital and surplus for the year</b>	<b>\$ 657,527</b>		<b>\$ (89,919)</b>	<b>\$ 567,608</b>
<b>Capital and surplus, December 31, current year</b>	<b>\$ 13,927,523</b>		<b>\$ (89,919)</b>	<b>\$ 13,837,604</b>

# NORTH WEST LIFE ASSURANCE CO. OF AMERICA

Examination as of December 31, 1997

## COMPARATIVE BALANCE SHEET

<b>ASSETS</b>	<b>1997*</b>	<b>1996</b>
Bonds	\$ 16,222,780	\$ 14,030,852
Mortgage Loans on Real Estate	15,487,999	16,848,905
Policy Loans	10,130,896	10,388,959
Cash on hand and on deposit & Short Term Investments	1,654,628	1,579,625
Other Invested Assets	528,363	520,383
Electronic data processing equipment	-	6,253
Federal Income Tax Recoverable	412,887	
Life premiums & annuity considerations deferred & uncollected	679,818	560,195
Investment Income due and accrued	580,966	542,426
Aggregate write-ins for other than invested assets	-	99,397
<b>Total Assets</b>	<b><u>\$ 45,698,337</u></b>	<b><u>\$ 44,576,995</u></b>
<b>LIABILITIES</b>		
Aggregate reserve for life policies and contracts	\$ 29,680,131	\$ 28,993,021
Policy and Contract Claims:		
Life	351,651	188,184
Policyholders' Dividends and Coupon Accumulations	878,203	949,569
Policyholders' Dividends Due & Unpaid	26,026	28,311
Liability for premium and other deposit funds:		
Policyholder Premiums	156,021	166,681
Policy and contract liabilities not included elsewhere:		
Interest Maintenance Reserve	107,070	130,878
Commissions to agents due or accrued	232,742	164,740
General expenses due or accrued	30,004	67,626
Taxes, licenses and fees, excluding federal income taxes	22,538	18,963
Federal Income Taxes due and accrued	-	-
Amounts held for Agent's account	82,869	140,464
Remittances and items not allocated	16,954	36,343
Asset Valuation Reserve	227,747	347,514
Payable to parent, subsidiaries and affiliates	48,777	74,705
Aggregate Write-ins for Liabilities	-	-
<b>Total Liabilities</b>	<b><u>\$ 31,860,733</u></b>	<b><u>\$ 31,306,999</u></b>
<b>CAPITAL AND SURPLUS</b>		
Common capital stock	\$ 2,992,257	\$ 2,992,257
Preferred capital stock	4,000,000	4,000,000
Gross paid in and contributed surplus	7,314,336	7,314,336
Reserve for AIDS	200,000	200,000
Unassigned funds (surplus)	(668,989)	(1,236,597)
<b>Total Capital and Surplus</b>	<b><u>\$ 13,837,604</u></b>	<b><u>\$ 13,269,996</u></b>
<b>Total Liabilities, Capital and Surplus</b>	<b><u>\$ 45,698,337</u></b>	<b><u>\$ 44,576,995</u></b>

\* As adjusted by examination.

**NORTH WEST LIFE ASSURANCE CO. OF AMERICA**  
Examination as of December 31, 1997  
**COMPARATIVE SUMMARY OF OPERATIONS**

	<b>1997*</b>	<b>1996</b>
Premiums and annuity considerations	\$ 4,405,427	\$ 3,900,753
Dividends accumulations	59,680	112,876
Net Investment Income	2,990,600	2,983,356
Amortization of Interest Maintenance Reserve	25,481	27,514
Commissions and expense allowances on reinsurance	8,368	10,521
Aggregate write-ins for miscellaneous income	44,507	23,976
<b>Total Income</b>	<b>\$ 7,534,063</b>	<b>\$ 7,058,996</b>
Death Benefits	1,052,872	642,827
Matured Endowments	42,145	8,281
Annuity Benefits	980,534	1,343,053
Surrender benefits and other fund withdrawals	919,691	812,783
Interest on policy and contract funds	81,761	77,885
Payments of dividends accumulations	141,706	216,527
Increase in aggregate reserves for life and A&H policies	687,110	630,356
Increase in liability for premium and other deposit funds	(3,890)	(19,107)
Increase in reserves for Dividends accumulations	(78,136)	(84,544)
Commissions on premiums and annuity considerations	1,631,296	1,161,952
Commissions & expense allowance on reinsurance assumed	103,386	119,270
General insurance expenses	1,214,133	1,086,131
Insurance taxes, licenses and fees	143,827	118,556
Aggregate write-ins for deductions	-	-
<b>Total Benefits and Expenses</b>	<b>\$ 6,916,435</b>	<b>\$ 6,113,970</b>
<b>Net Gain from Operations before dividends to policyholders</b>	<b>\$ 617,628</b>	<b>\$ 945,026</b>
Dividends to Policyholders	102,029	110,641
<b>Net gain from operations before federal income taxes</b>	<b>\$ 515,599</b>	<b>\$ 834,385</b>
Federal Income Taxes	(380)	497,701
<b>Net gain from operations before realized capital gains</b>	<b>\$ 515,979</b>	<b>\$ 336,684</b>
Net Realized capital gains less capital gains tax	-	-
<b>NET INCOME</b>	<b>\$ 515,979</b>	<b>\$ 336,684</b>
<b><u>CAPITAL AND SURPLUS ACCOUNT</u></b>		
Capital and surplus, December 31, previous year	\$ 13,269,996	12,967,967
Net income	515,979	336,684
Change in unrealized capital gains or (losses)	7,979	(23,614)
Change in non-admitted assets	(76,117)	2,480
Change in Asset Valuation Reserve	119,767	(12,090)
Paid in Surplus contribution	-	-
Dividends to Stockholders	-	-
Aggregate write-ins for gains & losses in surplus	-	(1,431)
<b>Net change in capital and surplus for the year</b>	<b>\$ 567,608</b>	<b>\$ 302,029</b>
<b>Capital and surplus, December 31, current year</b>	<b>\$ 13,837,604</b>	<b>\$ 13,269,996</b>

\* As adjusted by examination

# **NORTH WEST LIFE ASSURANCE CO. OF AMERICA**

Examination as of December 31, 1997  
RECONCILIATION OF CAPITAL AND SURPLUS

	<b>1997 *</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>	<b>1993</b>
<b>Capital and Surplus, December 31, previous year</b>	<b><u>\$ 13,269,996</u></b>	<b><u>\$ 12,967,967</u></b>	<b><u>\$ 12,581,844</u></b>	<b><u>\$ 12,111,999</u></b>	<b><u>\$ 11,033,977</u></b>
Net income	\$ 515,979	\$ 336,684	\$ 402,164	\$ 596,606	\$ 1,098,037
Change in Net Unrealized Gains or (Losses)	7,979	(23,614)	38,510	(63,738)	25,567
Change in non-admitted assets	(76,117)	2,480	5,561	22,571	(2,585)
Change in Asset Valuation Reserve	119,767	(12,090)	(61,543)	(65,335)	(63,293)
Aggregate write-ins for gains and losses in surplus	-	(1,431)	1,431	(20,259)	20,296
Paid-in Surplus Contribution	-	-	-	-	-
Dividends to Stockholders	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in capital and surplus	<u>\$ 567,608</u>	<u>\$ 302,029</u>	<u>\$ 386,123</u>	<u>\$ 469,845</u>	<u>\$ 1,078,022</u>
<b>Capital and Surplus, December 31, current year</b>	<b><u>\$ 13,837,604</u></b>	<b><u>\$ 13,269,996</u></b>	<b><u>\$ 12,967,967</u></b>	<b><u>\$ 12,581,844</u></b>	<b><u>\$ 12,111,999</u></b>

\* As adjusted by examination.

**NORTH WEST LIFE ASSURANCE COMPANY  
OF AMERICA**

**NOTES TO FINANCIAL STATEMENTS**

**(1) EDP Equipment**

An adjustment was made to non-admit the book value of EDP Equipment which has an original cost below the minimum set forth in RCW 48.12.010(11) which is \$25,000.

**(2) Federal Income Tax Recoverable**

A reclassification entry was made to Federal Income Tax Recoverable for a debit balance of a FIT payable account which the Company included as other accounts receivable under "Aggregate write-ins for other than invested assets" on page 2 of the Annual Statement.

**(3) Policy & Contract Claims - Life**

An adjustment was made to increase the unreported claims which was understated at the end of the year.

**(4) Aggregate Write-ins for other than Invested Assets**

An adjustment was made to non-admit prepaid expenses, Agents debit balances and other accounts receivable which were included in this line item.

**(5) Taxes, Licenses & Fees Due or Accrued**

An adjustment was made to reduce the balance of this line item which was overstated.



**NORTH WEST LIFE ASSURANCE COMPANY  
OF AMERICA**

**COMMENTS ON FINANCIAL STATEMENTS**

**A. Bonds \$16,222,780**

The Company's investment in bonds represented 35.4% of its total admitted assets as of December 31, 1997. All bonds were owned by the Company and were valued in accordance with the procedures prescribed by the NAIC Valuations of Securities manual. These bonds were verified by direct confirmation with the custodial bank. The bond portfolio consisted of the following:

<u>Classification</u>	<u>Statement Value</u>	<u>Par Value</u>	<u>Market Value</u>
US Government	\$ 1,742,462	\$ 1,814,681	\$ 1,743,755
Foreign Governments	1,030,283	970,000	1,043,213
Public Utilities	1,159,309	1,170,000	1,173,975
Industrial & Misc.	<u>12,290,726</u>	<u>12,159,261</u>	<u>12,623,890</u>
Total	<u>\$ 16,222,780</u>	<u>\$ 16,113,942</u>	<u>\$ 16,584,833</u>

**B. Mortgage Loans on Real Estate \$15,487,999**

The Company's investments in mortgage loans represented 33.8% of its total admitted assets. The mortgage loan portfolio consists of 96.7% commercial loans and 3.3% residential mortgages. Mortgage loans are carried at their unpaid balances. As of December 31, 1997, more than 50% of the mortgages are located in the State of Washington.

**C. Policy Loans \$10,130,896**

The Company's investments in policy loans represented 22.1% of its total admitted assets. Almost 84% of this amount came from North West Life Assurance Company of Canada (NWC) under a coinsurance agreement effective December 31, 1990

**NORTH WEST LIFE ASSURANCE COMPANY  
OF AMERICA**

which reinsured the loan portion of the Flexible Premium Deferred Annuities - Five Star Plus 1983 Plan. Policy loans are reported at their unpaid balances and consists of the following:

FPDA 5*1983 Plan from NWC(reins)	\$ 8,488,508
Universal Life & Uniflex	<u>1,642,388</u>
Total	<u>\$ 10,130,896</u>

**D. Cash & Short-Term Investments \$1,654,628**

Securities that have an original maturity date of twelve months or less from the time of purchase have been classified as Short-Term investments and are carried at amortized cost. As of 12/31/97, this line item consists of Cash on Deposit of \$39,743 and Short Term Investments of \$1,614,885.

**E. Other Invested Assets \$ 528,363**

Other invested assets consists of three (3) mutual funds which were the same mutual funds held in the last examination.

**F. Life Premiums Deferred & Uncollected \$ 679,818**

The purpose of this asset account is to offset the uncollected valuation net premium assumed uncollected in the calculation of policy reserves. The Company provided summary workpapers to support the amount reported in the Annual Statement. No discrepancies were found. However, the calculation were not verified by the Actuary of the Washington State Office of the Insurance Commissioner. (See comment regarding Reserves on page 17).

**G. Aggregate Reserve for Life Policies & Contracts \$29,680,131**

Included in this line item is the annuity reserve of \$8,648,746, for the loaned portion of the Flexible Premium Deferred Annuity (FPDA) reinsured from NWC. (See comment on Policy Loans above.) Each component of the reserve reported on Exhibit 8 was traced to the summary pages of the workpapers provided by the Company. Total of the summaries reconciled with the amount reported in the

**NORTH WEST LIFE ASSURANCE COMPANY  
OF AMERICA**

Annual Statement. However, the calculation of the reserves were not verified by the Actuary of the Washington State Office of the Insurance Commissioner. (See comment regarding Reserves on page 17).

<b>H.</b>	<b><u>Policy &amp; Contract Claims - Life</u></b>	<b>\$ 351,651</b>
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The policy and contract claim reserve was certified by the Company's actuary. The methods and procedures used to determine this liability were reviewed and the balance was adjusted by \$36,000. (See Notes to Financial Statements and comment regarding Reserves on page 17).

<b>I.</b>	<b>Policyholders Dividends &amp; Coupon Accumulations</b>	<b>\$ 878,203</b>
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Participating policyholders have the option to use the dividend to be applied to pay renewal premium, to be paid in cash, or to be left on deposit with the Company to accumulate at interest rates provided by the policy. This line item consist of dividend accumulations and accrued interest. During the period under examination, the Company only issued Non-Participating policies.

<b>J.</b>	<b>Interest Maintenance Reserve</b>	<b>\$ 107,070</b>
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This liability represents the reserve for interest rate-related capital gains and (losses) and amortized into income over the approximate remaining life of the investment sold. The balance was recalculated in accordance with the Annual Statement Instructions of the NAIC and has been accepted as stated. (See comment regarding Reserves on page 17).

<b>K.</b>	<b>Asset Valuation Reserve</b>	<b>\$ 227,747</b>
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The Asset Valuation Reserve was recalculated in accordance with the Annual Statement Instructions of the NAIC. The reserve liability for all categories of investments as reported by the Company, was found to be fairly stated. (See comment regarding Reserves on page 17).

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**ACKNOWLEDGMENT**

The cooperation and assistance of the officers and employees of the Company during the examination are hereby acknowledged.

In addition, Francisco S. Ebreo, AFE, FLMI, Insurance Examiner, John Jacobson, AFE, Insurance Examiner & EDP Specialist, and Alicia Hooper, Insurance Examiner, all from the Washington State Office of Insurance Commissioner, participated in the examination and preparation of this report.

## **AFFIDAVIT OF EXAMINER IN CHARGE**

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